

Towards a Robust National Trade Policy: Some Issues to Consider

Economic Intelligence Unit - CCC

The Sri Lankan government is currently preparing the country's first ever 'National Trade Policy', a document that will provide the framework for Sri Lanka's international trade engagements. Responding to a draft that was shared with us by the Ministry of Development Strategies and International Trade, the CCC submitted a comprehensive review with comments on both the overall orientation of the proposed policy as well as on specific elements of the draft. This article draws on the submission, to provide readers with a snapshot of the issues put forward.

Overall Focus

Overall, we argued that a National Trade Policy should be prepared with the following five considerations in mind: 1) Set out the broad principles of international trade which Sri Lanka subscribes to and wishes to pursue; 2) Broadly tackle some of the key contentious areas in the current trade regime, for instance, trade liberalization, non-tariff barriers, para-tariffs, trade facilitation, and supportive macroeconomic policies; 3) Help to align trade with other complementary policies and institutions; 4) Be a futuristic document and not limit itself to addressing concerns around trade issues at the present point in time; 5) Not only consider incumbent businesses and cater to sectoral interests of today, but consider the businesses and entrepreneurs of tomorrow who are yet to emerge and take advantage of new opportunities.

The draft trade policy has made a correct identification of the purpose of re-focussing on international trade – the need to shift growth models (from public infrastructure and consumption, to exports and private sector investment) as well as the job creation agenda. It also provides a clear elucidation of the current challenges in Sri Lanka's international trade and a concise framing of why Sri Lanka need to fix these. It is one of the strongest articulations of these contained in a government policy document to date. The document also rightly identifies the need to move away from mercantilism – looking not just at exports but also at imports. This is a critical shift from the policy approaches of the last decade where export promotion was attempted alongside vilification of imports. The document recognises that imports are a crucial component of a trade-led growth strategy. As has been advocated by the CCC in an earlier article, exports and imports are 'two sides of the same coin'.

The draft policy framework argues for an important shift away from 'control' towards 'facilitation'. This has been a call of the private sector for time now, as it is the most important factor when considering a modernized trading regime. With regard to standards and testing, the paper talks about the issues of institutional and process fragmentation, but does not address the issues of quality, and modernity of these institutions. Often it is these issues that hold back their relevance to trade-oriented businesses. The section on Mutual Recognition Agreements (MRAs) and standards seems to be heavily influenced by the issues around these faced in Indo-Lanka

trade. The paper needs to take closer account of similar issues in trading with Europe, US, rest of Asia, in order to ensure that the paper takes a more holistic view, sans bias towards any one bilateral trading relationship. In some of these cases, MRAs may not be the answer, while in others (like ISFTA) MRAs would be essential.

The draft policy framework has correctly identified that policy incoherence has been a perennial challenge in Sri Lanka's international trade regime. Yet, given the crucial importance of this issue, and the need to properly align tax, labour, environmental, investment, industrial, innovation, energy, and other policies, this area needs to be dealt with in greater detail. Meanwhile, the proposed administrative mechanism does not recognise the role of chambers of commerce and business associations. They need to be included this, as they are vital stakeholders in any international trade regime and trade is essentially carried out by businesses.

Areas Requiring Further Attention

While the draft shared with us was certainly comprehensive, the Chamber felt that several areas require more explicit mention. Ten such areas are outlined below:

Trade liberalization

The policy does not explicitly tackle how the illiberal tariff and para-tariff structure that has hurt trade competitiveness over a decade will be reformed. As this is the most important issue facing Sri Lanka's international trade regime, the trade policy must clearly articulate the government's position on this. It must also articulate the trade liberalization process that needs to be undertaken.

Overemphasis on PTAs, Conflating GVCs and GPNs

The document contains a great deal of emphasis on the role of PTAs, and too little on the role of Global Production Networks. Moreover, the paper conflates Global Value Chains with Global Production Networks, and use each interchangeably. This is misleading, and not making the distinction can lead to poorly designed trade policies. GVCs and GPNs require different policy interventions, and the latter is a more contemporary and focussed way of approaching trade policy. As a result of the heavy focus on PTAs, there is insufficient elucidation of Sri Lanka's stance with regard to multilateral trading arrangements, for example the WTO; and interactions with existing as well as emerging regional and mega-regional trading arrangements.

Innovation focus

Overall, the document places insufficient focus on innovation and technology upgrading. For example, in the section on policies to support domestic supply capacity and competitiveness, there needs to be more on this, as a key pillar in strengthening Sri Lanka's trade performance. The trade policy also requires a dedicated section on digital trade – particularly e-commerce -

given its growing importance in international trade and its ability to foster trade-oriented SMEs, i.e., inclusive trade.

Institutional and regulatory reforms

The document needs to address the intent to reform existing trade related institutions (Department of Commerce, Export Development Board, Import Control Department, etc.), to ensure they are fit for purpose, future-proof, and cater to a modern international trading regime. More focus is also needed on dealing with domestic industry 'doing business' issues, particularly fixing regulatory gaps that cause an uneven playing field between domestic products and imports (e.g., lack of regulatory oversight over imported cosmetics and beauty products). This can also be brought in as part of the reforms to trade facilitation. This policy document should have a firm stance on the approach the government would take in addressing the gaps in legal and regulatory mechanisms related to trade.

Revenue considerations

Balancing revenue with tariff and para-tariff reductions would be a crucial issue that needs to be dealt with. The section on rationalising border taxes contains an insufficient focus on the contentious issues of tax revenue and what needs to be done to bolster revenue in the short-run after liberalization. While rationalising the import tax structure has been identified correctly as a critical reform area, this must necessarily be considered alongside government fiscal operations. Often in Sri Lanka, border taxes are used to make up for revenue losses or expenditure leakages in the Budget; are subject to ad hoc and frequent changes; and import tax structures have become complex and convoluted over time. This has a negative impact on the ease of doing business and also affects the country's attractiveness as a trade-led economy.

Trade adjustment

The document can benefit from a clearer exposition of how the government can support businesses that are likely to lose out from trade liberalization in the short term and also support firms to take full advantage of the gains from liberalization (e.g., technology transfer, loans for industry restructuring, etc.). The CCC has made these recommendations to the government, on invitation of MODSIT and circulated it publicly ('Building Resilience, Supporting Growth: Preparing the Domestic Private Sector for Trade Liberalisation').

Rise of protectionism

While the policy identifies many important risk factors in the global trade arena, a key omission amongst these is the rise of protectionism across the world, particularly in the industrialized as well as G-20 countries. This is a key risk for Sri Lanka, and merit mention in the national trade policy, including an indication of how the government plans to deal with this. A further rise of

protectionism could be expected if global growth slows further and countries use protectionism to shore up their own industrial sectors.

Implementation is Key

Finally we argued that once the National Trade Policy is formulated, the focus should swiftly move to developing a Trade Development Strategy or a Trade Promotion Strategy that gives 'teeth' to the policy framework and accelerates implementation. This is what the private sector would be most keen on – implementation of key policy measures in order to have real economic and business impact.

The Ceylon Chamber of Commerce 'Trade Intelligence for the Private Sector' (TIPS) initiative aims to help our members stay up-to-date on international trade issues and advocate for policy changes.

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